EKL MACHINE COMPANY

Delaware Valley Industrial Resource Center

Getting the Cost Right

Client Profile:
EKL Machine Company, established in 1979, initially occupied a 12,000 sq. ft. facility in Andalusia, Pennsylvania. In 1998 the company acquired an adjoining building of 16,000 sq. ft. ELK is a machine shop providing precision machining and repairing of dies for metal can manufacturers. The company employs 24 people.

Situation:
EKL was in the process of upgrading its JobBoss software and recognized that its costing system was in need of improvement. EKL contracted with the Delaware Valley Industrial Resource Center (DVIRC), a NIST MEP network affiliate, to perform a detailed analysis of its costing information for the creation of work center rates and quoting methodologies.

Solution:
DVIRC performed a careful evaluation of EKL's data to develop a cost structure that the company has confidence in and could use aggressively in obtaining new business. As with many "job shops," knowing the real cost of each hour of labor in a variety of work centers is essential to quoting competitively. The approach used was to link overhead costs as specifically as possibly to the right work centers and employees. Instead of using large percentages to represent labor overhead, manufacturing overhead and general overhead, significant study was applied to specifically associating the overhead costs of employees to each employee and then averaging those costs to develop fully loaded labor rates.
Equipment overhead was calculated to associate the economic value of equipment to the cost of the job while ignoring the concept of fully depreciated equipment. Fixed and variable overhead associated with the factory, as well as selling and administrative activities, were also allocated to work centers to allow the company to have clear visibility of the true cost of doing work.
Using this methodology allowed EKL Machine to develop a cost and simply add the preferred net profit to complete the quote. Having a detailed breakdown of the costing structure for each work center allowed the company to see how much overhead needed to be taken into consideration when having to adjust rates to accommodate competitive situations.

Results:
* Assigned $75,000 to capital avoided.
* Cost savings of $700,000.
* Increased sales by $1,100,000.

Testimonial:

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